

**FEDERAL RESERVE BANK
OF NEW YORK**

ATCIR No 8559
April 20, 1979

**MISSING, LOST, COUNTERFEIT, OR STOLEN SECURITIES
Comment Invited on Proposed Modifications of SEC Program**

*To the Chief Executive Officers of All State Member
Banks in the Second Federal Reserve District:*

In July 1978 the Securities and Exchange Commission invited public comment on the operation of the Lost and Stolen Securities Program. Later that year the Commission extended the comment period through October 15, 1978, and subsequently extended the pilot period of the Program from December 31, 1978 until June 30, 1979. Based upon its analysis of comment letters, and in anticipation of the expiration of the pilot period, the Commission has now proposed certain amendments and modifications of the Lost and Stolen Securities Program relating to the registration of reporting institutions and to the Commission's reporting form.

As indicated in the enclosed *Federal Register* notice, the Commission is soliciting public comment on the proposals. Comments must be received by the Commission on or before May 4, 1979.

For further information regarding this matter, you may contact Gregory C. Yadley at the Securities and Exchange Commission (202-376-8129).

PAUL A. VOLCKER,
President.

Thursday
April 5, 1979

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ANSWERED
ATTENDED TO

Part V

Securities and Exchange Commission

Lost and Stolen Securities Program

ST. LOUIS
FEDERAL RESERVE BANK

SECURITIES AND EXCHANGE COMMISSION

[17 CFR Parts 240, 249]

Proposal of Amendments with Respect to the Lost and Stolen Securities Program

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule amendments.

SUMMARY: This action proposes amendments to the Lost and Stolen Securities Program which would establish registration provisions under the section for all reporting institutions subject to Section 17(f)(1) of the Act, except for (a) brokers and dealers whose only business is conducted on a national securities exchange and who do not conduct a public business, and (b) brokers and dealers who limit their business to sales of variable contracts or limited partnerships, establish a unified, central data base of reported securities thefts and losses, incorporate the temporary pilot period exemptions from reporting and inquiry, establish an exemption from required inquiry for bearer securities received by a reporting institution directly from a customer to whom it had previously sold the securities, provide modified reporting and inquiry requirements, and incorporate two staff interpretations extending the exemption from required inquiry to securities received from a "certificate drop" and from a Federal Reserve Bank or Branch from a safekeeping account. In addition, this release includes proposed modifications to the Commission's reporting form, Form X-17F-1A.

DATE: Comments must be received on or before May 4, 1979.

ADDRESS: Persons wishing to submit written views, data, and comments should file three copies thereof with George A. Fitzsimmons, Secretary, Securities and Exchange Commission, Washington, D.C. 20549. All submissions should refer to File No. S7-611 and will be available for public inspection.

FOR FURTHER INFORMATION CONTACT: Gregory C. Yadley, Branch Chief, Division of Market Regulation, Securities and Exchange Commission, Washington, D.C. 20549, telephone 202-376-8129.

SUPPLEMENTARY INFORMATION: With a view towards having the final, amended version of § 240.17f-1 in place by June 30, 1979, the end of the Lost and Stolen Securities Program's (the "Program") pilot period, the Commission herein

proposes various amendments and modifications to § 240.17f-1 and the Program based on the public comments received in response to the solicitation of views contained in Securities Exchange Act Release No. 15015.¹

Background

On August 5, 1977, the Commission published the final, amended version of § 240.17f-1², implementing Section 17(f)(1) of the Act, which mandated the establishment of a securities reporting and validation system. On January 2, 1978, the system for the processing of reports and inquiries became fully operational.³

In order to monitor the effectiveness of the section and the System designed to carry out the Program,⁴ the Commission determined that the Program should be instituted initially on a pilot basis, through December 31, 1978.

On July 31, 1978, the commission issued Release No. 34-15015, soliciting public comments concerning the operation of the Program and redesignation of SIC as the Commission's designee. Thereafter, in response to numerous requests for additional time in which to submit comments, the Commission extended the close of the comment period from September 8, 1978, to October 15, 1978.⁵

The Commission subsequently adopted a release⁶ which extended the expiration of the Program's pilot period from December 31, 1978, to June 30, 1979, redesignated SIC as its designee to maintain and operate the data base of

¹ 43 FR 34790 (August 7, 1978), hereinafter cited as "Release No. 34-15015."

² Securities Exchange Act Release No. 13832, 42 FR 41022 (August 12, 1977), hereinafter cited as "Release No. 34-13832."

³ The Commission determined that it would be appropriate to designate another person, as provided for by the statute, to receive and process reports and inquiries made pursuant to the section on behalf of the Commission. Accordingly, the Commission solicited plans from persons interested in acting as the Commission's designee and, after analysis of the submissions, designated Securities Information Center, Inc. ("SIC") to maintain and operate the data base of missing, lost, counterfeit or stolen securities on its behalf, through the pilot period ending December 31, 1978. Securities Exchange Act Release No. 13538, 42 FR 26495 (May 12, 1977). AutEx, Inc., was originally named as the designee. Subsequently, as a result of the acquisition of AutEx by ITEL Corp., SIC was created as a wholly-owned subsidiary of ITEL Corp.

⁴ The Lost and Stolen Securities "Program" encompasses both the computerized data bank maintained by SIC for corporate and municipal securities and the Lost and Stolen Securities Checklist maintained by the Federal Reserve Banks for United States Government and agency securities. The Lost and Stolen Securities "System" refers only to the SIC data base and procedures.

⁵ Securities Exchange Act Release No. 15159, 43 FR 43035 (September 22, 1978).

⁶ Securities Exchange Act Release No. 15289, 43 FR 52418 (November 9, 1978).

missing, lost, counterfeit or stolen securities for a two-year term ending December 31, 1980, and required certain institutions subject to § 240.17f-1 to register with SIC for the 1979 calendar year.⁷ After analyzing the approximately 120 comment letters submitted by members of the public in response to its solicitation release, the Commission has determined to issue for public comment certain proposed amendments to the section and other modifications to the Program, as discussed below.

Institutions Subject to § 240.17f-1

The financial institutions required to make reports and inquiries with respect to missing, lost, counterfeit or stolen securities pursuant to § 240.17f-1 include a cross-section of nearly 20,000 securities, banking and corporate entities.⁸ Preliminary review of the comments received in response to Release No. 15015 indicated that it may be appropriate to exempt from the operation of the section certain classes or subclasses of these institutions or to limit the applicability of the section with respect to such institutions. Similarly, it was felt that it may be appropriate to broaden the scope of the section to include additional classes of financial institutions or to impose greater requirements on certain classes or subclasses of institutions.

In response to the Commission's solicitation of public views, some commentators suggested increased participation in the Program through recommendations that all financial institutions which deal in securities be included in the section. In particular, it was suggested that savings and loan associations, Federal credit unions, the Federal Reserve Banks, insurance companies, paying agents for bonds, trustees for municipal issues, and domestic branches of foreign banks be made subject to the provisions of the section. Paying agents for bond interest and trustees for municipal issues, registered as transfer agents, are already covered by § 240.17f-1.

⁷ As of December 31, 1978, SIC has received a total of 370,909 reports representing \$1,730,808,150.00 in missing, lost, counterfeit or stolen securities and 1,179,168 inquiries. Since January 1, 1978, a total of 445 inquiries resulted in "hits." The securities involved in these "hits" are valued at \$13,109,960.00.

⁸ "Every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System, and bank whose deposits insured by the Federal Deposit Insurance Corporation . . . Securities Exchange Act of 1934 § 17(f)(1), 15 U.S.C. § 78q(f)(1) (supp. 1978).

Some insurance companies and subsidiaries of insurance companies, by virtue of their registration as broker-dealers, are already subject to Section 17(f)(1) of the Act. Additional legislation, however, would be required to achieve mandatory participation by such other entities as savings and loan associations, Federal credit unions, and the Federal Reserve Banks.⁹

By far the largest number of comment letters addressing the issue of the scope of the program recommended that exemptions be provided by § 240.17f-1. As expected, the suggestions came from all sectors of the industry and may be broadly gathered into four large groupings: (1) "Small" financial institutions; (2) brokerage firms which do not deal with the public; (3) firms engaged in a specialized business; and (4) all other banks, broker-dealers, and transfer agents whose handling of securities certificates is minimal.

During the pilot phase of the Program, no exceptions from registration in the Program were granted,¹⁰ and all financial institutions listed in Section 17(f) of the Act were required to participate. Congress, on the basis of a series of public hearings¹¹ had determined that certain classes of institutions were required to participate, and the Commission had no independent additional information which would justify a departure from the Congressional approach. Now, however, one year after § 240.17f-1 became fully effective, the Commission has analyzed the vulnerability to the public if exceptions are provided and assessed the burdens on the industry if they are not.

⁹ The staff of the Commission intends to monitor, where possible, the operation of the Program to determine whether legislation mandating the inclusion of additional classes of institutions in the Program seems appropriate. Paragraph (d) of § 240.17f-1, which is redesignated proposed paragraph (e), does provide for voluntary participation in the Program for financial institutions not included in Section 17(f) of the Act. In this regard, the Commission encourages financial institutions not within the jurisdiction of this section to apply under paragraph (d) to become so included. The Commission, as a condition to granting such a status, will require those institutions to undertake to comply with § 240.17f-1 on the same basis as a reporting institution. Letters requesting participation in the Program should be denominated "Application for Designation as a Reporting Institution Pursuant to § 240.17f-1" and should be addressed to the Division of Market Regulation.

¹⁰ Of course, § 240.17f-1 does include certain exceptions from required inquiry, and additional reporting and inquiry exceptions were provided during the pilot, implementing, phase of the Program. See discussion *infra*.

¹¹ Organized Crime—Stolen Securities. Hearings before the Permanent Subcommittee on Investigations, Senate Committee on Government Operations, 92nd Cong., 1st Sess. (1971); 93rd Cong., 1st Sess. (1973); 93rd Cong., 2nd Sess. (1974), hereinafter cited as "Hearings."

The Commission has determined that there are two general classes of broker and dealers whose securities activity is so limited that they may be appropriately exempted from the registration provisions of the Program, namely (a) brokers and dealers whose only business is conducted on the floor of a national securities exchange and who do not conduct a public business, and (b) brokers and dealers whose business is limited to sales of variable contracts or limited partnerships and who do not hold or receive securities subject to the reporting and inquiry provisions of the section.

Since such persons do not deal in or handle securities certificates, the Commission proposes that the amendment to § 240.17f-1 incorporating the registration requirements of the Program into the section and discussed *infra* include exemptions for brokers and dealers engaged solely in the sale of variable contracts or limited partnerships and for floor traders, floor brokers, and specialists who do no public business.¹²

Securities Encompassed by § 240.17f-1

In Securities Exchange Act Release No. 13280,¹³ the Commission announced that to ease implementation of the Program and to focus on the most heavily traded securities, corporate and municipal issues not assigned CUSIP numbers would be exempt from required reporting and inquiry for the duration of the pilot program (the "non-CUSIP exemption").

Thereafter, in Release No. 34-15015, the Commission solicited comments from interested members of the public on whether the non-CUSIP exemption should be continued, modified, incorporated in the section or terminated, and whether other types of securities should be exempted from, or included in, the section's coverage.

A majority of the comments received by the Commission urged that the non-CUSIP exemption be continued and/or made permanent. The balance of the comments recommended the inclusion and deletion of certain types of securities.

When the Commission initially adopted the non-CUSIP exemption in connection with the implementation of the Program, it recognized that the Program's purposes would be better served if its focus was on those securities which were commonly held by the investing public, most readily negotiable, and most often subject to

loss, theft or counterfeiting. The CUSIP system offered a pre-existing, convenient, efficient method for concentrating on those securities that would be most appropriate for inclusion in the Program.¹⁴

Certain specific non-CUSIP securities were mentioned for inclusion within the section by some commentators. A few commentators urged that bond coupons, certificates of deposit, and money-market instruments be subject to the section's required reporting and inquiry provisions. The Commission, however, is of the view that to require reporting and inquiry with respect to bond coupons would be unnecessary and would prove to be intolerably burdensome on paying agents for corporate and municipal bond issuers. In addition, inclusion of bond coupons, certificates of deposit, and money-market instruments would necessarily increase system costs to reporting institutions since SIC would process more inquiries and reports. Moreover, inclusion of these securities would necessitate significant, expensive, and impracticable modifications to SIC's system.

Therefore, the Commission proposes that the present temporary exemption for non-CUSIP securities and bond coupons be continued without change and solicits comment on whether it should be incorporated in § 240.17f-1.

Dual Appropriate Instrumentalities

Section 240.17f-1 specifies that reports and inquiries shall be made to the "appropriate instrumentality." For securities issued by the U.S. Government, an Agency or instrumentality of the U.S. Government, the International Bank for Reconstruction and Development, the InterAmerican Bank, or the Asian Development, the appropriate instrumentality is any Federal Reserve

¹⁴ The CUSIP system utilizes such factors as whether the security is traded on a national securities exchange, listed in the National Quotation Bureau's "pink sheets," traded on a national basis or is of general interest to determine whether assignment of a CUSIP number is appropriate. Approximately 1,200,000 securities issues are presently assigned CUSIP numbers. These factors operate to limit non-CUSIP securities to those that are of "local interest" or are short term commercial paper or money-market instruments such as certificates of deposit, among others. In addition, non-certificated securities are not assigned CUSIP numbers. It is worthy of note, however, that even though a securities issue may be initially of "local interest," it may subsequently be assigned a CUSIP number due to increased investor interest, or trading or listing on an exchange. Consequently, in most instances, there is a correlation between the lack of an assigned CUSIP number and the lack of a general market for the particular security.

¹² These brokers and dealers would continue to be "reporting institutions" under the section.

¹³ 42 FR 11829 (March 1, 1977).

Bank or Branch (the "FRB").¹⁵ For reports and inquiries regarding all other securities, the appropriate instrumentality is the Commission or its designee.

In Release No. 34-15015, the Commission solicited comments from interested members of the public as to whether the framework of dual appropriate instrumentalities provided by the section should be retained or whether a unified central data base would be preferable. In addition, comments as to any difficulties experienced due to the concept or operation of the two appropriate instrumentalities were invited.

In response to the Commission's solicitation, almost two-thirds of the comments received recommended merger of the SIC and FRB data bases. The comments also revealed that there may be some significant systemic difficulties inherent in the continuation of the framework of dual appropriate instrumentalities. For example, some confusion has been experienced by reporting institutions with regard to which Federal Reserve Bank or Branch would be appropriate to receive their reports and inquiries. Moreover, some reporting institutions have forwarded reports and inquiries to the incorrect appropriate instrumentality, thereby causing delays in the inclusion of relevant information in the data base.

In view of the comments received and the systemic problems presented by the current framework of dual appropriate instrumentalities, the Commission has determined that a unified data base of missing, lost, counterfeit, and stolen securities be established. Since SIC has been redesignated by the Commission to maintain and operate the data base of missing, lost, counterfeit, and stolen securities for a two year term ending December 31, 1980, has the computer capacity to assimilate the reports already in the FRB data base, and has expressed a willingness to take on this area of responsibility, the Commission is issuing for public comment a proposed amendment to paragraph (a) of § 240.17f-1 deleting the definition of the term "appropriate instrumentality" and other conforming, technical amendments, the effect of which would be to create a unified central data base.

Reporting Time Requirements

In order to ascertain whether the section's reporting time requirements are appropriate and consistent with securities industry and banking practices, and with a view towards proposing modifications where

necessary, the Commission, in Release No. 34-15015, solicited comments from interested members of the public.

Two-thirds of the comments received recommended no change from the reporting time requirements currently contained in the section.¹⁶ In response to comments recommending that the reporting time requirements be extended, the Commission is of the view that to do so would be contrary to the purposes of Section 17(f)(1) of the Act. Clearly, expeditious reporting of losses is necessary to achieve the objectives of the Program—the detection and recovery of missing, lost, stolen or counterfeit securities.¹⁷ Section 240.17f-1 recognizes, however, the potential compliance burdens and operational difficulties that unnecessarily strict reporting time frames would cause. Therefore, flexibility is provided by typing the reporting provisions to the type of loss involved and avoiding burdensome reporting requirements where essential information is not available.

In fact, with respect to most of the section's reporting time requirements, reporting institutions are given additional time to make reports when losses are discovered in special circumstances or when certificate numbers are unknown. The only instance where a report is required without exception to be made within one business day after discovery of the loss notwithstanding any lack of certificate numbers is when criminality is suspected.¹⁸

In response to those comments recommending that a single uniform reporting time requirement be proposed, the Commission has determined that such a change would be inappropriate since the reporting time frames for

¹⁶ One commentator recommended that the reporting time requirements be made more flexible in periods of high trading volume. The Commission, however, believes that it is precisely during periods of higher than normal trading volume that relatively short reporting time requirements are appropriate to help prevent and halt the further negotiation of missing, lost, counterfeit or stolen certificates. Periods of high trading volume, together with a volatile market situation, give the holders of such securities a greater opportunity for further negotiation.

¹⁷ Testimony elicited during the 1971 Senate Hearings showed that stolen securities may be easily moved throughout the country for illegal negotiation within matter of hours. Hearings, 92d Cong., 1st Sess. (1971), at 107-118.

¹⁸ Because of the criminality involved, a report regarding the discovery of a counterfeit security must also be filed within one business day of discovery. In this case, however, the reporting institution would have the certificate in its possession or keeping and, therefore, would have all the relevant information to make the report. Expeditious reporting of a counterfeit security is particularly appropriate since there are often duplicate counterfeit securities in circulation.

missing or lost securities would have to be reduced to conform to the one business day required in the case of stolen or counterfeit securities. This modification would result in an unnecessary reporting burden.

After considering the public commentary and the policies underlying the reporting time requirements, the Commission has resolved to continue the current reporting time requirements without modification.

Form X-17F-1A

Paragraph (b)(6) of § 240.17f-1 requires that all reports made pursuant to this section be submitted on SEC Form X-17F-1A. In Release No. 34-15015, the Commission solicited comments as to whether Form X-17F-1A should be modified in terms of its format, graphics, or the information required, and whether the form has been useful in identifying and tracing missing, lost, counterfeit, and stolen securities.

The majority of the comments received generally endorsed the reporting form. There were, however, a number of suggestions which the Commission believes should be incorporated into the form.

Several commentators urged a designation on the form of the type of loss being reported. The Commission agrees that if additional measures are to be taken to prevent losses, it is necessary to learn as much as possible about losses actually suffered by reporting institutions. Therefore, the Commission proposes that the form be modified to include a designation for the type of loss reported.¹⁹

In response to other comments received the Commission proposes the following modifications to Form X-17F-1A: inclusion of the telephone number of the reporting institution,²⁰ specific designation of the Federal Reserve Banks, the FBI, and Local Police as parties to whom reports may be required to be sent,²¹ and the names and addresses of transfer or paying agents and insurance companies who receive copies of filed reports.²² More space has also been provided under Item 11 for the name of the registered holder or bearer, and under item 12, for "certificate/serial numbers." Under item 5, "Type of Security," certain designations have been removed, while "Government or Agency" security has been added.

The Commission has been advised that there is some confusion regarding

¹⁹ See item number 4 of the appendix (Proposed Form X-17F-1A).

²⁰ See item 1 of the appendix.

²¹ See items 17, 18 and 19 of the appendix.

²² See items 20 and 21 of the appendix.

¹⁵ 17 CFR 240.17f-1(a)(2)(i).

the requirement to include the alphabetical prefix or suffix with the certificate number when making reports. Section 240.17f-1 requires the inclusion of prefixes or suffixes on reports wherever they are available. It should be noted that SIC computer software is capable of searching the data base without prefixes or suffixes. Accordingly, if a reporting institution is unable to determine the prefix or suffix of the subject security, it should nevertheless proceed with the report. However, SIC may indicate as a "hit" ²³ any security with the same certificate number, although, in fact, it may not be a true match because the reported security may have a prefix or suffix unknown at the time it was reported.²⁴

Inquiry Time Frames

Section 240.17f-1 does not dictate time frames within which reporting institutions must make inquiries with respect to securities coming into their possession or keeping to ascertain whether such securities have been previously reported as missing, lost, counterfeit or stolen.²⁵ In Release No. 34-15015, the Commission solicited comments from interested members of the public regarding whether inquiries should be made within certain time periods and, if so, within what time periods.

The great majority of comments received recommended that the Commission continue the current rule provision.²⁶

Since the flexibility provided by the section apparently has been accepted by reporting institutions, the Commission recommends no change from the present rule, which leaves the time within which inquiries are made to the business judgment of the individual reporting institutions.

Inquiry Pilot Period Exemptions

A. The Registered Transfer Agent Exemption. During the pilot program, registered transfer agents are exempt from the inquiry provisions of § 240.17f-

1.²⁷ Release No. 34-15015 solicited comments from interested members of the public with regard to whether the temporary transfer agent exemption from required inquiry should be continued, modified, incorporated into the section, or allowed to lapse.²⁸ The overwhelming majority of the comments received by the Commission urged that this temporary exemption be continued and/or incorporated into the section.

Traditionally, transfer agents have had a pivotal role, through their "stop transfer lists," in maintaining information regarding securities deemed to be missing, lost or stolen. A transfer agent will not effect registration of a transfer unless it is satisfied from its own records and a review of its stops that the particular transfer is in all respects proper.

Despite the adoption of § 240.17f-1, the traditional practice by which persons who suffer loss or theft of securities notify the transfer agent of such loss or theft has continued in order to protect such persons' interest in the particular securities.²⁹ The continued filing of "stops" with the transfer agent, accordingly, has meant that the transfer agent has had substantially the same information regarding the securities of an issuer as has the appropriate instrumentality. Consequently, requiring the transfer agent to inquire with the appropriate instrumentality, as well as its own stop files, would be duplicative in most instances.

²⁷ In Securities Exchange Act Release No. 13281, 42 FR 11844, (March 1, 1977), the Commission proposed an amendment to § 240.17f-1 which, if adopted, would have exempted registered transfer agents from required inquiry. Subsequently, with a view towards obtaining more information with respect to the impact of such an amendment on the costs of the System to institutions subject to the section and the effectiveness of the system in preventing and halting the further negotiation of missing, lost, counterfeit or stolen securities, the proposed amendment was withdrawn. The Commission, thereafter, issued Release No. 34-13832 which included the current temporary exemption, and in Securities Exchange Act Release No. 15289 (November 9, 1978), extended the duration of the pilot program and the exemption from December 31, 1978, to June 30, 1979.

²⁸ The release also solicited public commentary with regard to a staff interpretation which makes the transfer agent exemption applicable to a transfer agent engaged as an exchange, conversion, or redemption agent or depository, or tender agent (whether such transfer agent is acting as the issuer's transfer agent or as a depository or tender agent in connection with a so-called "unfriendly tender offer"), as long as such transfer agent maintains or is provided with current and accurate records of stop transfer instructions and inquiry of such records is made for each item received prior to issuing a new certificate, transferring record ownership, disbursing funds, or otherwise completing the transaction. Letter to the Stock Transfer Association, Inc., dated March 8, 1978.

²⁹ See UCC §§ 8-311 and 8-405. See also *Exxon v. Raelter*, 533 SW2d 842 (Ct. Civ. App. Tex. 1976).

In order to eliminate some of this duplication, and to ensure that the transfer agent has identical records to those included in the appropriate instrumentality's data base, the section requires that a reporting institution not only submit a report of loss to the appropriate instrumentality but, also contemporaneously, forward a copy of the report to a registered transfer agent for the issue.³⁰

If the transfer agent exemption were allowed to lapse at the end of the pilot period, the resultant duplication would necessarily increase the costs of the System to those institutions subject to the section since the total number of inquiries processed by SIC would increase markedly. Most importantly, termination of the exemption would not afford investors increased protection, since the information in transfer agent stop files is substantially similar to the information contained in the data base of the appropriate instrumentality.

In light of the discussion above, the Commission proposes incorporation of the transfer agent exemption into the section.³¹

B. The *De Minimis* Exemption. In Securities Exchange Act Release No. 13280,³² the Commission announced an interpretive clarification of § 240.17f-1 which exempted from required inquiry securities transactions valued at less than \$10,000 for the duration of the pilot program to ease the Program's implementation (the "*De minimis* exemption").

In addition, during the pilot program, the staff of the Commission issued two interpretive letters regarding this temporary exemption. The first stated that a reporting institution must view a securities transaction in its entirety and not on a piecemeal basis when determining whether the exemption is applicable.³³ The second interpretation

³⁰ To further these goals, the Commission proposes an amendment to the section which would require reporting institutions to submit a copy of Form X-17F-1A to a transfer agent for the issue one day after discovery of a counterfeit security.

³¹ With respect to the staff's interpretation of the transfer agent exemption, discussed in footnote 28 *supra*, the Commission has determined that it is based on sound policy and practical business considerations, but is of the view that since the *proviso*, in reality, does not obligate the transfer agent to perform his functions in any manner different than that dictated by state law and sound business practices, its incorporation into the section would not serve any useful purpose.

³² 42 FR 11829 (March 1, 1977).

³³ Letter to La Salle National Bank, dated December 7, 1977. For example, where for \$5,000 bonds are used as collateral for a single loan, the total transaction exceeds \$10,000, and the *de minimis* exemption from inquiry may not be claimed. If each certificate were analyzed with respect to the exemption's applicability, relatively few transactions would require inquiry.

²³ A "hit" results when an inquiry matches a previously submitted report.

²⁴ Of course, institutions filing reports in these circumstances should diligently search for the unknown prefixes or suffixes and submit an update on Form X-17F-1A with the information to SIC as quickly as possible after discovery.

²⁵ See 17 CFR 240.17f-1(c).

²⁶ The Commission, in Release No. 34-13832, stated that economic realities would, in most cases, dictate that a reporting institution "make inquiry prior to giving value, particularly if the securities or circumstances appear to be suspicious." The Commission continues to believe that this statement of expected conduct is appropriate, since business relationships between customers and institutions are infinitely variable in nature and circumstances.

extended the exemption to include securities transactions of exactly \$10,000 in recognition of the fact that most debt securities are issued in \$5,000 face value denominations, and in the interest of reducing the burden imposed by the rule on municipal securities brokers and dealers.³⁴

In Release No. 34-15015, the Commission solicited comments from interested members of the public with regard to whether the exemption and its accompanying interpretations should be continued, modified, incorporated in the section, or allowed to lapse.

More than one-half of the comments submitted in response to the solicitation release recommended that the exemption be continued. In addition, the great majority of the commentators recommended continuance and or incorporation into the section of the "whole transaction" interpretation, and the "exactly \$10,000" interpretation.

The determination by the Commission to exempt transactions under \$10,000 was based, in part, on an impact study which indicated that the greatest number of inquiries to be made by banks and registered transfer agents would involve transactions of less than \$10,000.³⁵

In addition, the Commission has analyzed data contained in surveys conducted by several transfer agent associations and has concluded that the exemption has been instrumental in establishing a securities validation system which is both cost efficient and effective. The surveys show, for example, that of 776 "hits" received on inquiries by a selected sample of transfer agents during the first six months of the pilot period, only 9.7% (75) had a face value or market value greater than \$10,000. The face value or market value of these hits, however, totaled 90.6% (\$12,684,080.22) of the aggregate value of the 776 hits (\$13,994,212.07). From these figures and the fact that a necessary component of each hit is an inquiry, the Commission believes that the operation of the exemption minimizes the number of inquiries required to be made of the System and the cost of the System occasioned thereby, while maximizing the desired benefit—the discovery of the great majority of missing, lost, counterfeit or stolen securities.

The Commission, therefore, is of the view that the *de minimus* exemption, as modified by the staff interpretations, be proposed as an amendment to the section.

Inquiry Rule Exemptions

Section 240.17f-1 requires reporting institutions to make inquiry whenever securities come into their possession or keeping unless an exemption applies. Presently, the section provides an exemption from inquiry if the security is received: (1) Directly from the issuer or issuing agent at issuance; (2) from another reporting institution or a Federal Reserve Bank in its capacity as fiscal agent; or (3) from a customer of the reporting institution where the certificate is registered in the name of such customer or its nominee.³⁶

In response to the question of whether additional exemptions from inquiry should be permitted, the majority of the commentators suggested that inquiry should not be required in the case of bearer securities where the reporting institution taking such securities into its possession previously sold such securities to the person delivering them and can verify through its internal records that it sold such securities to the presenter.

The argument given in support of this additional exemption is that it is an unnecessary expense for the reporting institution and a needless burden on the facilities of the Program to require inquiries to be made on bearer securities which the broker or dealer knows to be legitimately owned by his customer. It is argued that the inquiry is especially unnecessary since the reporting institution can verify from its own internal records the authenticity of such bearer securities.³⁷

The Commission agrees that in the situation where the accepting reporting institution "knows its customer" and can verify from its own internal records that the securities presented were those previously sold to its customer, the reporting institution is in a position comparable in terms of safety to that in which it accepts a registered security.

Therefore, the Commission proposes an amendment to the section providing for an additional exemption from inquiry in the situation discussed above.

Direct/Indirect Inquiry

In Release No. 34-15015, the Commission solicited comments on whether or not the present program allowing for an election of participation status as either a direct or an indirect inquirer is appropriate. The great majority of the comments received endorsed the program. The Commission agrees that an election of participation status is desirable as it provides for institutions which may not have sufficient volume of securities transactions to otherwise justify the expense of participating as a direct inquirer. Such institutions may include those that wish to participate voluntarily, pursuant to paragraph (d) of § 240.17f-1, and those required to participate by the Act. Therefore, the Commission proposes no modification to the Program providing for an election of participation status.

However, in response to comments indicating problems regarding communication between indirect inquirers and their designated direct inquirers, the Commission proposes an amendment to the section requiring reporting institutions to maintain as part of the recordkeeping requirements of proposed paragraph (g) of the section copies of agreements designating other institutions as direct inquirers for processing of inquiries. Furthermore, indirect inquirers should not designate another reporting institution as a direct inquirer prior to an agreement with that institution.³⁸

Finally, the Commission has stated that, in order to make reports and inquiries and to generally participate in the Program, it is necessary for reporting institutions to register with the Commission's designee. Some institutions, however, have argued that since there is no provision in the section requiring registration with SIC, they may forego registration and, as a result, be free from the requirements of the section.

Therefore, to remedy this perceived gap in regulation, the Commission proposes a technical amendment to the section requiring all "reporting institutions," as defined in paragraph (a)(1) of § 240.17f-1, to register with the Commission or its designee pursuant to instructions issued by the Commission.

Fee Structure

In Release No. 34-15015, the Commission solicited comments on whether the present pricing structure is

³⁴ Letter to Federal Reserve Bank of St. Louis, dated January 12, 1978. Although the interpretation's rationale was based on the situation presented by debt security transactions, in order to avoid confusion, it was designed to apply to equity securities as well.

³⁵ The study projected that, on an annual basis, 59.7% and 88% of all inquiries by banks and registered transfer agents, respectively, would involve transactions of less than \$10,000.

³⁶ See § 240.17f-1(c)(1) (i), (ii), and (iii).

³⁷ A reporting institution coming into possession or keeping of a bearer certificate in these circumstances would be expected to verify this fact by an examination of prior confirmations of securities transactions issued to the customer, delivery receipts, and other relevant internal records which would document, to the satisfaction of the firm, that the bearer security is legitimately held by the customer.

³⁸ The Commission also encourages each direct inquirer to share with its indirect inquirers all information obtained in response to inquiries made on their behalf (e.g., pertinent information concerning hits).

just and workable, and whether reasonable alternatives to this system exist.³⁹

As discussed above, the Program presently provides for two levels of user access with respect to inquiries, direct or indirect. The scheme of classification by type of participation was created with a view towards minimizing the monetary and administrative costs of the Program. This interest also guided the Commission in its formulation of the pricing schedule for reporting institutions.⁴⁰

Under the plan approved by the Commission, the usage fees are based on two variables, the aggregate number of items processed by SIC and the number of direct inquirers participating in the System. The aggregate usage cost of the Program is assumed by all direct inquirers, according to the type and size of institution involved.⁴¹ Thus, within a given classification of institution, all entities pay the same fee regardless of the actual number of inquiries or reports made.

Although the majority of the comments recommended that the cost to the reporting institutions should be on a usage or "per item" basis, the Commission believes that such a plan would create a disincentive to making permissive inquiries, and thus outweigh any positive aspects. Most importantly, since the System serves all financial institutions which deal in securities, and particularly in light of the exemption from inquiry provided by the section when one reporting institution takes certificates from another, the benefit, and similarly the cost, of any particular inquiry inures to the entire financial community.

In the Commission's view, the present fee structure is fair, efficient, easy to administer, and encourages the making of inquiries. Therefore, the Commission recommends that no changes be made but would welcome constructive suggestions for further consideration.

³⁹ SIC's operational costs for the first year totalled \$757,000.00, and it is estimated that for 1979 operational costs will total \$807,000.00.

⁴⁰ Direct inquirers shoulder the costs of the System. Indirect inquirers are charged no fees by SIC but are subject to whatever fees they agree to pay their direct inquirer. One benefit of this approach is that it significantly alleviates problems relating to the frequent collection of small bills from large numbers of persons, a problem which the Securities Investors Protection Corporation ("SIPC") experienced to a great extent in its collection of assessment fees.

⁴¹ Billing classifications are based on the amount of deposits for banks, annual revenue for securities organizations, and number of shares issued in the case of non-bank transfer agents.

Staff Interpretations

In Release No. 34-15015, the Commission solicited comments as to whether staff interpretations of § 240.17f-1 should be modified and/or incorporated into the section.

1. *Warrants.* The staff declined a request that warrant cards, representing rights, be exempted from the reporting provisions of § 240.17f-1. The rationale for this position is that, although individual rights are generally of minimal value, the number of rights represented by a warrant card is correlated to the number of shares a stockholder owns and, thus aggregated, can have a considerable value.⁴²

The majority of the comments received on the subject endorsed the staff's treatment of warrants. However, four institutions suggested that warrants be exempted from the reporting provisions of the section, and one bank suggested that "short term" warrants—those expiring in less than 90 days—be exempted.

For purposes of the pilot period, exemptions based on the minimal value of the securities involved has been provided only with regard to required inquiry (the "*de minimus*" exemption). However, there have been no exemptions from reporting losses based on the minimal value of the securities involved, and the Commission sees no reason to provide a special exemption for warrant cards. Accordingly, the Commission maintains its initial position and recommends no changes in the treatment of warrants under the section.

2. *Losses During Completion of Delivery, Deposit or Withdrawal.* With regard to subparagraphs (b)(2)(iii)(B) and (b)(2)(iii)(C) of § 240.17f-1, specifying the appropriate time and party to report losses when securities are delivered "over the window," the staff published an interpretation stating that copies of delivery bills, stamped by receiving institutions "Received Subject to Count and Examination" and returned to delivering institutions, are "receipts" under the section and thereby create an obligation on the part of the receiving institution to report any losses to the appropriate instrumentality.⁴³

Of the eleven comments that dealt with this interpretation, only four disagreed with the staff's view. They argued that it is contrary to normal business practice to obligate the receiving institution to make reports when it receives securities over the

window and stamps delivery bills and receipts as "Received Subject to Count and Examination." The remainder of the comments supported the staff's interpretation and did not consider the requirement contrary to normal business practice.

Subparagraph (b)(2)(iii)(B) of § 240.17f-1 states that in an over the window transaction, where the delivering institution has a receipt, the delivering institution must supply the receiving institution with the certificate numbers, and the receiving institution must report losses within one business day of notification of the certificate number. When this rule was written, the staff intended that a receipt or delivery bill stamped "Received Subject to Count and Examination" would be within the meaning of the word "receipt" as used in subparagraph (b)(2)(iii)(B). Thus, the obligation to report missing or lost securities in these situations lies with the receiving institution.

The primary objective was to provide clarity so that the obligation to report losses lies clearly with one party or the other. The Commission believes that the rule, as written, is equitable in most instances and that the certainty it provides justifies its continuation.

Accordingly, the commission recommends no revision of this interpretation.

3. *Timely Submission of Report.* As a result of the difficulties certain institutions have faced in researching the data to be submitted in a report of loss, the staff has published interpretations of the reporting requirements of the section stating that in instances where no criminal activity is suspected, a report must be made under subparagraph (b)(2) of the section as soon as the reporting institution has available to it the CUSIP and certificate numbers of the security, provided, that the institution acts in good faith in promptly researching this data. This extension of time is not available where the circumstances surrounding the loss suggest possible criminal activity.⁴⁴

The Commission maintains the position taken in its interpretative letter and notes that if no criminal activity is suspected, a reporting institution may wait until it obtains the certificate and CUSIP numbers of the missing security before making its report, provided that the institution acts in good faith in attempting to obtain the missing data

⁴⁴ Due to the overriding interest in disseminating information on thefts as quickly as possible, reports are required within one business day in this instance, even when certificate numbers are not available. Letter to First Trust Co. of St. Paul, dated March 20, 1978.

⁴² Letter to Morgan Guaranty Trust Co., dated March 13, 1978.

⁴³ Letter to Northwestern Trust Co., dated February 28, 1978.

promptly.⁴⁵ There is, however, no extension of time for submission of reports where the number of shares, issue or maturity, type of loss, or other nonessential information is known. So long as the certificate and CUSIP numbers of missing CUSIP numbers of missing certificates are known, reports must be made within the time periods presented by the section.

4. Report to Law Enforcement.

Subparagraph (b)(1)(ii) of § 240.17f-1 provides that all reporting institutions shall promptly report to the appropriate law enforcement agency upon the discovery of a theft or a loss where there is a substantial basis for believing that criminal activity was involved. To clarify those instances where such reports could be submitted to law enforcement, the staff issued an interpretation stating that an institution does not necessarily have a "substantial basis" for such belief in those instances where the institution's knowledge of the loss or theft is based on unsubstantiated information given to it by another party.⁴⁶

The majority of the letters commenting on the subject endorsed the staff's interpretation. However, a substantial number of commentators requested clarification on two issues: (1) What constitutes a "substantial basis" for believing that criminal activity was involved, and (2) what is the "appropriate law enforcement agency."

The Commission recognizes that it is difficult for a reporting institution to determine when there is a "substantial basis" for believing that criminal activity is involved. Due to innumerable fact situations which may arise, however, the reporting institution must consider the totality of the facts and circumstances to make an informed judgment as to the likelihood that criminality is involved.

Because of the importance of assuring that appropriate law enforcement organizations are notified of potential crimes within their jurisdiction, certain guidelines may be helpful.⁴⁷ A good faith

determination as to whether criminality is involved in a loss and timely notification to any of the above agencies by reporting institutions shall generally be deemed compliance with paragraph (b)(1) of § 240.17f-1.

5. *Exemption Upon Receipt From Another Reporting Institution.* In an interpretative letter, the staff expressed the opinion that the exemption from inquiry available upon receipt of securities from another reporting institution is also available in those instances where the delivering institution is affiliated with and under the common control of a reporting institution and acts solely as a "certificate drop."⁴⁸

The Commission believes that the exemption from inquiry permitted by the staff interpretation is a logical development of the exemption provided for in paragraph (c)(1)(ii) of the section. In view of the comments received, the Commission proposes that the section be amended to incorporate the exemption as provided for in the staff interpretation.

6. *Exemption Upon Receipt From a Federal Reserve Bank.* Under paragraph (c)(1)(ii) of § 240.17f-1, inquiry is not required where a reporting institution receives securities from a Federal Reserve Bank in its capacity as fiscal agent. This exemption is not available under the section, therefore, when securities are delivered by the FRB from a safekeeping account. The staff has issued an interpretation providing that when securities are delivered to a reporting institution by the FRB out of the safekeeping account of another reporting institution and such securities had been delivered to the FRB by a reporting institution, inquiry is not required.⁴⁹

The comments received regarding this interpretation were almost entirely favorable. Since, in the vast majority of cases, Federal Reserve Banks and Branches receive securities in either the capacity of fiscal agent or safekeeping agent, the Commission proposes an amendment to the section to incorporate the interpretation by deleting any reference to the capacity in which the Federal Reserve Bank or Branch received the securities in question.⁵⁰

Service—All cases involving counterfeits of securities which are direct obligations of the United States Government or are issued with Government backing. The Secret Service reportedly has a general interest in all counterfeiting activity.

⁴⁸ Letter to First National Bank of Boston, dated January 12, 1978.

⁴⁹ Letter to Bankers Trust Co., dated March 21, 1978.

⁵⁰ Regardless of the capacity in which it acts, in most instances, a Federal Reserve Bank or Branch receives securities from member banks or other

7. *Miscellaneous Comments.* In addition to the specific areas noted above, the Commission also solicited general comments on the Lost and Stolen Securities Program. A discussion of some of these comments follows.⁵¹

A few of the commentators suggested that the Commission provide guidance to the reporting institutions as to what action should be taken when an inquiry results in a "hit."

The Commission has previously stated that the section does not set forth what action should be taken by reporting institutions in event of a hit. Inquiring institutions are expected to follow current business practices in dealing with securities which it knows to be lost or stolen.⁵²

Another commentator suggested that SIC update or revalidate reports periodically. Specifically, it was asked that SIC send out to reporting institutions, on a quarterly basis, a listing of all open losses reported by the institution for verification. It is argued that this would assist in purging the open file of extraneous information, as well as reduce the risk of liability if a recovery report was not processed properly by either the SIC or the reporting institution.

The Commission is of the opinion that this is unnecessary. Section 240.17f-1 requires a report to the appropriate instrumentality when previously reported certificates are recovered. So long as reporting institutions comply with the section, the data base will be current. While it may be desirable to enforce paragraph (b)(4) of the section through periodic verification or purging, the Commission believes that the cost to the Program of such an undertaking would outweigh the benefit received.

One comment received by the Commission asked that confirmations on inquiries contain more information, such as the date of report, CUSIP number, names of registered holder, etc. With the exception of CUSIP numbers, which are currently included in inquiry

reporting institutions under the section. Accordingly, inquiry will have previously been made on the subject securities where required. It is only in rare circumstances that securities are received by a Federal Reserve Bank or Branch from a non-reporting institution. In such cases, the Federal Reserve Bank or Branch attempts to validate the authenticity of the certificate.

⁵¹ Out of the approximately 120 comments received by the Commission, ten suggested that the Program be discontinued due to the costs to the industry and the minimal benefits to be gained.

⁵² Release No. 34-13832, 42 FR 41023. When a hit occurs SIC notifies the inquiring institution immediately and telephones the reporting institution which previously filed the report concerning the loss. Further procedures may be included in SIC's forthcoming "fact sheet" which will contain general information and guidelines regarding the structure and use of the System.

⁴⁵ There is no outside time limit on research to determine the certificate and CUSIP numbers.

⁴⁶ Letter to Continental Stock Transfer and Trust Co., dated January 12, 1978.

⁴⁷ The following general guidelines may be useful in deciding which law enforcement agencies to notify in certain instances.

(1) Local Police Department—All cases involving thefts or mysterious disappearances of securities or discoveries of securities reported stolen. (2) Federal Bureau of Investigation—All cases involving securities thefts of \$5,000 or over, all theft from banks, all theft of Government securities, all counterfeits of non-Government securities, all counterfeits presented as collateral for a bank loan, all stolen or counterfeit securities involved in interstate commerce, and all counterfeit securities used in a violation of Federal Law. (3) U.S. Secret

confirmations, additional information cannot be provided routinely because information released by SIC is computer generated. Therefore, confirmations on inquiries can contain only that information that has been keyed into the computer, namely FINS number, CUSIP number, and certificate number.

One reporting institution suggested that a form be adopted for making inquiries. Although such a form may provide some degree of consistency and uniformity, it is not clear that a special form is necessary.⁵³ However, this suggestion, along with those recommending updates of reports and more thorough confirmations on inquiries, will be discussed with SIC to determine the feasibility of incorporating them into the Program.

A few commentators suggested that reports of counterfeit securities should be sent to transfer agents in addition to the appropriate instrumentality. The Commission agrees with this suggestion and proposes an amendment to paragraph (b)(3) of the section to include this provision.

Statutory Basis and Competitive Considerations

The Commission proposes amendments to § 240.17f-1 and modifications to the Lost and Stolen Securities Program pursuant to Sections 2, 17(f), and 23 of the Securities Exchange Act of 1934, as amended.

The Commission further finds that the solicitation of comments in connection with the proposed amendments to § 240.17f-1 and the Lost and Stolen Securities Program contained herein is necessary and appropriate in the public interest and for the protection of investors.

Request for Comments

The Commission invites comments on any of the matters raised below. Comments should be addressed to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, NW., Washington, D.C. 20549. All comments should refer to File No. S7-611 and will be available for public inspection.

1. Pursuant to Sections 2, 17(f), and 23 of the Securities Exchange Act of 1934, the Securities and Exchange Commission proposes the following amendments to § 240.17f-1 in Chapter II of Title 17 of the Code of Federal Regulations:

ATTENTION

The text of the following proposed amendments uses arrows ►◄ to indicate additions and brackets [] to indicate deletions.

§ 240.17f-1 Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities.

(a) *Definition[s]*— [1] *Reporting institution.* For purposes of this section, the term "reporting institution" shall include every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System and bank whose deposits are insured by the Federal Deposit Insurance Corporation.

[(2) *Appropriate instrumentality.* For purposes of this section the term "appropriate instrumentality" shall mean:

(i) Any Federal Reserve Bank or branch thereof with respect to securities issued by:

- (A) The United States Government,
- (B) Any agency or instrumentality of the United States Government,
- (C) The International Bank for Reconstruction and Development,
- (D) The Inter-American Bank, or
- (E) The Asian Development Bank; and
- (ii) The Securities and Exchange Commission with respect to all other securities.]

(b) ► Every reporting institution shall register with the Commission or its designee in accordance with instructions issued by the Commission except

(1) A member of a national securities exchange who effects securities transactions exclusively on the floor of such national securities exchange solely for other members and does not receive or hold customer securities; and

(2) A registered broker or dealer who is engaged exclusively in the sale of variable contracts and/or limited partnership interests and does not receive or hold securities that are subject to the provisions of paragraphs (c) and (d) herein. ◄

[(b)] ►(c) ◄ *Reporting requirements*— (1) *Stolen Securities.* (i) Every reporting institution shall report to the [appropriate instrumentality]

►Commission or its designee ◄ and to a registered transfer agent for the issue the discovery of the theft or loss of any security where there is substantial basis for believing that criminal activity was

involved. Such report shall be made within one business day of the discovery and, if the certificate numbers of the securities cannot be ascertained at that time, they shall be reported as soon thereafter as possible.

(2) *Missing or lost securities.* Every reporting institution shall report to the [appropriate instrumentality] ► Commission or its designee ◄ and to a registered transfer agent for the issue the discovery of the loss of any security where criminal actions are not suspected when the security has been missing or lost for a period of two business days. Such report shall be made within one business day of the end of such period except that:

(3) *Counterfeit securities.* Every reporting institution shall report the discovery of any counterfeit security to the [appropriate instrumentality] ► Commission or its designee, to a registered transfer agent for the issue, ◄ and to the appropriate law enforcement agency within one business day.

(4) *Recovery.* Every reporting institution shall report the recovery or finding of any security previously reported missing, lost, or stolen pursuant to this section to the [appropriate instrumentality] ► Commission or its designee ◄ and to a registered transfer agent for the issue within one business day of such recovery or finding. If a report of stolen securities was made to the appropriate law enforcement agency, a report of such recovery shall also be made to such agency. Recovery may only be reported by the institution which reported the security as missing, lost or stolen.

[[c]] ►(d) ◄ *Required inquiries.* (1) Every reporting institution ► except a registered transfer agent ◄ shall inquire of the [appropriate instrumentality] ► Commission or its designee ◄ with respect to every security which comes into its possession or keeping, whether by pledge, transfer, or otherwise, to ascertain whether such security has been reported as missing, lost, counterfeit, or stolen, unless

(i) * * *

(ii) The security is received from another reporting institution or from a Federal Reserve Bank or Branch [in its capacity as fiscal agent];

(iii) The security is received from a customer of the reporting institution and ► (A) ◄ is registered in the name of such customer or its nominee[.] ► or

⁵³ Comments from other reporting institutions indicated a special form for inquiries is unnecessary.

(B) was previously sold to such customer, as verified by the internal records of the reporting institution;

(iv) The security is part of a transaction which has an aggregate face value of \$10,000 or less in the case of bonds or market value of \$10,000 or less in the case of stocks; or

(v) The security is received directly from a drop which is affiliated with a reporting institution for the purposes of receiving and delivering certificates on behalf of the reporting institution.◀

* * * * *

[(d)]▶(e)◀ Every reporting institution may report to or inquire of the [appropriate instrumentality]

▶ Commission or its designee ◀ with respect to any security not otherwise required by this section to be the subject of a report or inquiry. The Commission on written request or upon its own motion may permit reports to and inquiries of the system by any other person or entity upon such terms and conditions as it deems appropriate and necessary in the public interest and for the protection of investors.

[(e)]▶(f)◀ *Exemptions.* ▶ The following types of securities are not subject to paragraphs (c) and (d), above:

(1)◀ Registered securities of the United States Government, any agency or instrumentality of the United States Government, the International Bank for Reconstruction and Development, the Inter-American Development Bank, or the Asian Development Bank, and counterfeit securities of such entities; [are not subject to the provisions of this section relating to reporting and inquiry with the appropriate instrumentality.]

▶(2) Security issues not assigned CUSIP numbers;

(3) Bond coupons.◀

[(f)]▶(g)◀ *Recordkeeping.* Every reporting institution shall maintain and preserve in an easily accessible place for three years copies of all Forms X-17F-1A filed pursuant to this section▶, all agreements between reporting institutions regarding registration or other aspects of this section,◀ and all confirmations or other information received from the [appropriate instrumentality] ▶ Commission or its designee ◀ as a result of inquiry.

* * * * *

§ 249.1200 [Amended]

2. The Securities and Exchange Commission, pursuant to Section 17(f) of the Securities Exchange Act of 1934, proposes the following modifications to Form X-17F-1A, § 249.1200 in Chapter II of Title 17 of the Code of Federal Regulations as appended hereto.

By the Commission.

George A. Fitzsimmons,

Secretary.

March 29, 1979.

BILLING CODE 8010-01-M

APPENDIX

Subpart M -- Forms for Reporting and Inquiry with respect to Missing, Lost, Stolen, or Counterfeit Securities.
 §249.1200 -- Form X-17F-1A Report for Missing, Lost, Stolen or Counterfeit Securities.

PLEASE TYPE OR PRINT CLEARLY	FORM X-17F-1A MISSING/LOST/STOLEN/COUNTERFEIT SECURITIES REPORT	DESIGNEE'S USE ONLY <div style="border: 1px solid black; width: 100px; height: 20px; margin: 5px auto;"></div> DATE/FILE NUMBER
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1. REPORTING INSTITUTION: NAME _____
 ADDRESS _____
 _____ ZIP CODE _____
 _____ ATTENTION _____
 TELEPHONE NO. _____ FINS/SIC IDENTIFIER NUMBER _____ / () () ()

2. TYPE OF REPORT: ☐ LOSS ☐ RECOVERY ☐ UPDATE ☐ CONFIRMATION

3. DATE OF LOSS/RECOVERY _____

4. TYPE OF LOSS: ☐ MAIL ☐ DELIVERY ☐ ON PREMISES ☐ CLEARING ☐ OTHER _____

5. TYPE OF SECURITY: ☐ COMMON STOCK ☐ PREFERRED STOCK ☐ CORPORATE BOND ☐ MUNICIPAL BOND
☐ GOVERNMENT/AGENCY ☐ OTHER _____

6. NAME OF ISSUER _____

7. INTEREST RATE _____ 8. MATURITY DATE _____ 9. ISSUE DATE _____

10. CUSIP NUMBER _____

11. NAME OF REGISTERED HOLDER (BEARER) _____

12. CERTIFICATE/SERIAL NUMBERS ☐ ADDITIONAL PAGES ATTACHED 13. DENOMINATION/SHARES

14. ☐ CRIMINALITY INDICATED 15. TOTAL CURRENT MARKET OR FACE VALUE \$ _____

16. ☐ COUNTERFEIT _____
 If Counterfeit - Distinguishing Characteristics _____

REPORTS FILED WITH: 17. ☐ FEDERAL RESERVE 18. ☐ FBI 19. ☐ LOCAL POLICE

20. ☐ TRANSFER/PAY AGENT _____

21. ☐ INSURANCE CO. _____

22. _____ 23. _____
 Authorized Signature Date

SEC 1500 (2-79)

INSTRUCTIONS

Note—Section 240.17f-1 does not require reporting coupons. Municipal or corporate securities not assigned CUSIP Numbers are not the subject of reporting and inquiry.

Forms should be mailed to the Commission's designee:

Securities Information Center, Inc.
Post Office Box 421
Wellesley Hills, Massachusetts 02181

1. **Reporting Information**—Enter reporting institution name, address and FINS number, with Securities Information Center-assigned suffix, if any.
2. **Type of Report**—Check whether report is a new report ("Loss"), report of recovery of previously reported loss ("Recovery"), or update or correction of report other than recovery ("Update"). Additionally, if the report is a confirmation of a loss, recovery, or update made by telex or telephone, also check the box marked "Confirmation."
3. **Date**—Enter date when loss was noticed, theft occurred, when counterfeit was discovered or suspected, or when security was found or recovered. When submitting updates, corrections or confirmations, enter date of loss or recovery.
4. **Type of Loss**—Check the box which most nearly describes the loss. If none of the classifications adequately describes the loss, check "OTHER" and describe the loss in the space provided.
5. **Type of Securities**—Check the box which most nearly describes the type of security. If none of the classifications adequately describes the security check "OTHER" and describe the security in the space provided.
6. **Issuer**—Print or type the name of issuing company, agency or organization as set out on the security even though the security may have been lost, stolen, or missing prior to being "issued" by the appropriate authority.
7. **Interest Rate**—If interest rate was indicated, enter this information.
8. **Maturity Date**—Enter maturity date where applicable.
9. **Issue Date**—Enter issue date of security. If certificates have not yet been issued, indicate this fact.
10. **CUSIP Number**—Enter entire CUSIP Number.
11. **Name of Registered Holder**—Clearly print or type the full name of person (individual, company, bank brokerage house, etc.) to whom the security is registered exactly as it appears on the security. Enter the word "Bearer" when document is a bearer security.
12. **Certificate/Serial Numbers**—Enter certificate or serial number(s) including all suffixes and prefixes. If certificates have not been issued, enter the control number. Series may be indicated by the first and last numbers separated by a dash and followed by the word "Series". Certificate or serial numbers of certificates of the same CUSIP number which are not in sequential order should be listed separately on each line. For a nonsequential series of certificates having the same CUSIP number, additional pages listing securities to be reported may be attached. If additional pages are attached, check the box.
13. **Denomination/Shares**—Enter in numerical form the amount of money represented by bonds, debentures, notes and other securities (except stock warrants and rights) as indicated on the certificates. If amount was not indicated on the certificate, enter the word "Blank."
For stocks, enter the number of shares represented by the certificates, not the par value of the stock. If number of shares is not represented, enter the word "Blank."
For warrants and rights, enter in numerical form the number of shares which the document entitles the owner to purchase.
14. **Criminality Indicated**—If reporting a loss, check when a substantial belief of criminality is indicated.
15. **Total Current Market or Face Value**—For stocks, rights and warrants, enter the approximate total current market value. For bonds, enter the face value of the certificate.
16. **Counterfeit**—Describe distinguishing characteristics of suspected counterfeit securities.
17. **Filed with Federal Reserve Bank**—Check if report on a Government or Agency security is filed with a Federal Reserve Bank or Branch.
18. **Filed with Federal Bureau of Investigation**—Check if you sent a copy of this report to the FBI when required.
19. **Filed with Local Police**—Check if you sent a copy of this report to the local police when required.
20. **Transfer/Pay Agent**—Check to indicate that you have sent a copy of this report to a Transfer or Paying Agent for the issue, and enter the name and address.
21. **Insurance Co.**—Check to indicate that you have sent a copy of this report to your insurance company, and enter the name and address.
22. **Authorized Signature**—Form X-17f-1A must have an authorized signature to be accepted by the System. With respect to those reports filed with the Commission's designee, such signatures must be on file with the designee. Copies of reports sent to the transfer agent and the appropriate law enforcement agency should contain an original signature.
23. **Date**—Enter date when form is signed.

NOTE: This form may be reproduced in any manner so long as the graphics and format are not altered and 8½" x 11" paper is used.

[Release No. 34-15663; File No. 57-611]

[FR Doc. 79-10525 Filed 4-4-79; 8:45 am]

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